Macro scenario - Chile

March 17, 2025

Moving in the right direction

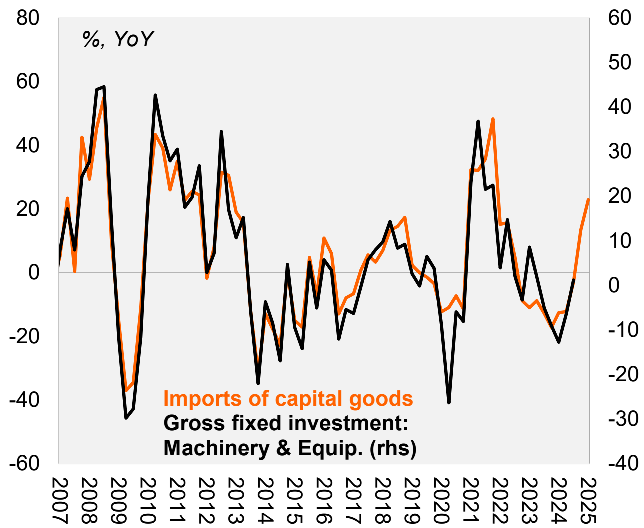
- The recovery is gaining momentum, boosted by mining-related investment and tourism consumption, while supply factors have resulted in softer inflation pressure. We expect the central bank to keep the policy rate at 5% this year. In our view, the March IPoM policy rate corridor will suggest a cautious approach in the short term and convergence to the 4% nominal neutral rate in 2026 (vs. the signaling of 4Q25 in December).

Consolidation of investment recovery expectations

Activity increased by 3.8% YoY during the quarter ended in January, marking the fastest pace since mid-2022. Commerce increased by 8.1% YoY in the quarter, and mining rose by 6.3%. Service growth was more subdued, at 1.5%. The sequential pace of economic activity recently outperformed expectations, showing above-potential expansion led by an increase of 5.3% QoQ/Saar in non-mining activity (up from 2.1% in 4Q24 and 3.4% in 3Q24).

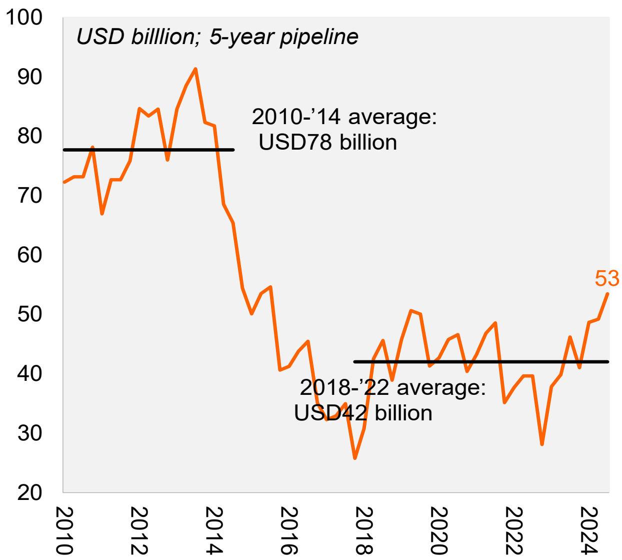
Business confidence entered optimistic territory in February for the first time since February 2022. Capital goods imports, which have a good correlation with investment in machinery and equipment, increased by 22% YoY in the quarter ended in February. According to the Corporation of Capital Goods' (CBC in Spanish) 4Q24 survey – a leading indicator for investment used by economic authorities and analysts – private investment is projected to rise by 17.5% YoY in 2025 (from 15% in the 3Q24 survey), driven primarily by an increase of 35% YoY in mining and 12% YoY in energy. Confidence and activity in the construction sector, which has been a key investment drag in the last few years, also improved at the margin.

Improving investment outlook



Source: BCCh, Itaú

Rising investment pipeline



Source: CBC

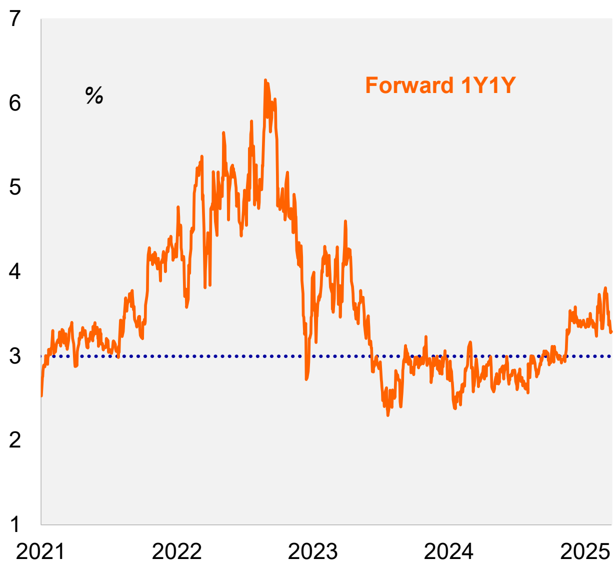
Meanwhile, a continuing wave of consumer tourism is likely to sustain the retail dynamics. Inflows of foreign tourism spiked by 67% YoY in January, as the Argentine travel spree continues. Tourism from Argentina to Chile rose by 151% YoY to 518,000 in January, accounting for 61% of the total. According to credit card transaction data, Argentine transactions rose by 338% YoY in January, with the nominal volume increased by 541%. Labor market flows also seem to be gradually improving, indicating less slack. Data from the Labor Directorate shows a decline in layoffs based on firms' needs, suggesting that most of the adjustments in the formal market have already been implemented. On a separate note, unemployment insurance beneficiaries stabilized at similar levels to last year, even showing a decline in the margin. Labor demand proxies remain well below pre-pandemic levels, but have shown signs of improvement.

CLP rally eases CPI pressure

Better behaved core inflation dynamics. After hovering above the 3% target since early 2021, inflation ticked down by 20 bps to 4.7% in February. Core inflation edged down by 30 bps to 3.9%, the lowest level since September of last year. Core goods inflation rose by 0.1% MoM and 3.0% YoY% (from 3.1% in January), while core services dipped by 50 bps to 4.5%, the lowest core service print in more than three years. Sequentially, annualized core inflation reached a near-target 3.3% over the last quarter, from a peak of 5.5% in the quarter ended in October 2024.

The 7% CLP rally this year, coupled with the roughly 5% decline in global oil prices, led to an easing of medium-term inflation expectations. Higher copper prices and lower oil prices are boosting the terms of trade, with Chile's trade surplus reaching around 7% of GDP. The improvement in the activity outlook, falling inflation expectations and stable interest rates have contributed to a significant swing in the net FX derivative position of non-residents, who are now long CLP for the first time since 2022. The 1Y1Y breakeven inflation is now at around 3.2% (vs. a 3% target), markedly down from close to 4% in February. Market pricing for YE25 inflation has shaved 20 bps since our last update, and is now at 4.1%.

Inflation breakevens drop from recent highs



Source: BCCh.

In no rush to cut

Inflation dynamics during the first quarter of the year are broadly in line with the BCCh's December scenario. Despite the retreat in inflation expectations, they remain above the central bank's 3.6% forecast. On the other hand, the negative output gap forecasted in the December IPoM is likely to be much narrower, if not slightly positive, when the scenario is updated this month. Given the volatile global scenario, we see limited room for the BCCh to signal rate cuts in the near term. The one-year ex-ante real rate is already close to neutral levels. We expect the new policy rate corridor to reflect a period of rates on hold, before taking further steps toward the 4% neutral nominal rate in 2026. Adopting a stay-on-hold approach in the near term will give the board time to gauge the breadth of the recent improvement in economic activity and consolidate the downward adjustment of CPI expectations, preventing a policy scenario in which the board would need to raise rates in the short term, albeit in the context of high global policy uncertainty and narrow interest rate differentials with the U.S.

Upside GDP bias and risks of swifter disinflation

The economy is trending in the right direction. Our 2.3% GDP growth call for the year has an upside bias. With signs that investment will recover in 2025 (led by mining), the spillover effects to the rest of the economy could boost private sentiment and support a gradual improvement in labor market dynamics and private consumption. In this context, our growth forecast is likely to be updated following the 4Q24 national accounts data later this month.

Rising growth expectations and falling inflation expectations amid softer U.S. data and higher copper prices are boosting the CLP. We continue to expect a YE25 FX rate of CLP 955/USD, implying some weakening from current levels, given that our copper price scenario indicates an overshooting of the metal.

We do not expect another major electricity price hike this year, or a significant minimum wage increase. High base effects are expected to support a noticeable drop in inflation to 4.1% during the second half of the year, from the current 4.7%. Our scenario assumes downside risks from the decline in gasoline prices following the CLP rally and the drop in global oil prices. On the other hand, somewhat more robust private consumption may prevent a swifter disinflation path.

The decline in core inflation, particularly core services, coupled with the recent CLP rally and downside adjustment of inflation expectations, is likely to ease the recent market pressure related to expectations that the central bank would raise rates as soon as 1H25. We forecast that the BCCh will keep the policy rate unchanged at 5.0% this year.

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Chile | Forecasts and Data

	2020	2021	2022	2023	2024F		2025F		2026F	
					Current	Previous	Current	Previous	Current	Previous
Economic Activity										
Real GDP growth - %	-6.1	11.3	2.1	0.2	**2.5**	2.5	**2.3**	2.3	**2.0**	2.0
Nominal GDP - USD bn	254	311	303	332	**312**	312	**321**	321	**355**	355
Population (millions)	19.5	19.7	19.8	20.0	**20.1**	20.1	**20.2**	20.2	**20.3**	20.3
Per Capita GDP - USD	13,068	15,810	15,294	16,617	**15,523**	15,523	**15,891**	15,891	**17,450**	17,450
Unemployment Rate - year avg	10.8	8.9	7.9	8.7	8.5	-	**8.5**	8.5	**8.2**	8.2
Inflation										
CPI - %	3.0	7.2	12.8	3.9	4.5	-	**4.1**	4.1	**3.0**	3.0
Interest Rate										
Monetary Policy Rate - eop - %	0.50	4.00	11.25	8.25	5.00	-	**5.00**	5.00	**4.50**	4.50
Balance of Payments										
CLP / USD - eop	711	851	851	879	996	-	**955**	955	**930**	930
Trade Balance - USD bn	18.9	10.3	3.7	15.3	22.1	-	**22.5**	22.5	**18.0**	18.0
Current Account - % GDP	-1.9	-7.4	-8.6	-3.6	**-2.3**	-2.3	**-2.4**	-2.4	**-2.9**	-2.9
Foreign Direct Investment - % GDP	4.5	4.9	6.0	6.6	**4.9**	4.9	**4.8**	4.8	**4.8**	4.8
International Reserves - USD bn	39.2	51.3	39.2	46.3	44.4	-	**50.0**	50.0	**58.0**	58.0
Public Finances										
Primary Balance - % GDP	-6.3	-6.9	-1.6	-0.9	**-1.8**	-1.8	**-0.9**	-0.9	**0.2**	0.2
Nominal Balance - % GDP	-7.3	-7.7	1.1	-2.4	**-2.9**	-2.9	**-2.0**	-2.0	**-1.0**	-1.0
Net Public Debt - % GDP	13.4	20.2	20.4	23.1	**26.0**	26.0	**27.3**	27.3	**27.5**	27.5

Source: IMF, Bloomberg, BCCh, INE, Haver and Itaú

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